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Memorandum of Conversation

EXCISE

DATE: September 22, 1973

SUBJECT: Status of Libyan and Saudi Oil Negotiations

PARTICIPANTS:

Mr. Frank Mau, Office of Fuels and Energy
Mr. William Whitman, Office of Fuels and Energy

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E - Mr. Casey
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EB/ORF/FSE - Mr. Bennis
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ARA/BR - Mr. Low
Treasury - Mr. Johnson
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Mr. DiBona
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Justice - Mr. Wilson
NSC - Mr. Odeen

[REDACTED] said that the Libyans met separately with the major oil companies on September 22 (AMOSEAS, EXXON and SHELL with Deputy Petroleum Minister Muntassir and MOBIL with Petroleum Minister Mabruk). They told the LARG that they could not accept the terms Prime Minister Jallud had outlined the previous week, but that they were very much interested in the proposal of an "unannounced truce" during which time negotiations might continue. The Libyans refused the offer of the company negotiators (5 percent of production and 27 cents per barrel during the period of the truce), but expressed interest in further talks. The consensus of the companies is that:

- (1) The LARG will not accept their initial offer.
- (2) However, the LARG wants an interim settlement of some kind.
- (3) The Libyans want to lift oil during the period of the truce.

(Drafting Office and Office)
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- (4) During the negotiating period the LARG would be willing to minimize the effect of the September 1 nationalization law.
- (5) The LARG appears to believe that an entirely new formula to reach settlement with the majors is required, perhaps a production sharing arrangement, but that it must be at least the equivalent of agreements reached with OASIS and Occidental.

During the course of the September 22 meetings, the companies were told by Muntassir that the LARG was finding difficulty in finding buyers for its 51 percent share of production. However, it would need more oil to meet its commitments than was available from the Independents. Some formula must be developed to make additional amounts available from the majors, but there would be no LARG requirement for the full 51 percent at this time. (Mabruk was less reassuring on this subject.) If the terms of an unannounced truce could be agreed, then such a truce might be for a period of up to six months. The Libyans clearly intimated that they expected major changes in the terms of Middle East agreements within this time frame.

Based on the September 22 discussions, the companies are meeting in New York to prepare a second offer which might be made to the Libyans as early as September 26. Agreement already has been reached that they might offer up to 17 1/2 percent of production as combination of royalty and cost crude, provided provision was made for the companies to have first opportunity to buy back a portion of this oil. The companies were having more difficulty in agreeing on a MOBIL suggestion that as much as 25 percent of production be made available to the LARG. (MOBIL had suggested that the Libyans might be willing to double production quotas, keeping its 51 percent in the ground and allowing the majors to produce at the rate authorized prior to August 1. The others do not believe that the LARG will agree and believe the proposal could set a bad precedent in the Persian Gulf.)

[REDACTED] reported that the NEPCO COURAGEOUS lifted a second cargo of LARG/AMOSEAS oil on September 22 and was enroute to Sardinia. TEXACO and SOCAL planned to take legal action in Italy against the cargo, the refinery and the ship-owner (NEPCO), as they had with the first cargo. B1E9

With respect to Saudi Arabia, [REDACTED] said that the ARAMCO partners had met on a continuing basis with SAG Petroleum Minister Yamani in San Francisco over the past week. Although complete agreement had not been reached, ARAMCO has "recognized" Yamani's desire that during the scheduled October 8 meeting between Persian Gulf countries and producing companies substantial company concessions would be made. (The meeting is being held to "up-date" the Persian Gulf participation agreements with respect to the devaluation escalator and the price of buy-back oil.) A formula was being developed to permit the Saudi's to receive world market prices for most buy-back oil. The companies were meeting in New York today to prepare a memorandum which would be given to the U.S. and other major consuming countries explaining the nature of the tentative agreements reached with Yamani and the price consequences. A copy would be made available to the USG as soon as possible. B1E9

The London Policy Group will meet in London on September 25 at a technical level to develop strategy for the October 8 talks. Tentative agreement has been reached that Piercy (EXXON) will lead a five-man delegation representing the companies. In addition to Piercy, two Europeans and two Americans will be included. One of the Americans will be selected from EURACAN (the minority stockholders in the Iranian consortium.)